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INTELLIGENCE BRIEF

KOSYGIN'S PROPOSALS
FOR REORGANIZING SOVIET ECONOMIC MANAGEMENT

DIRECTORATE OF INTELLIGENCE

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KOSYGIN'S PROPOSALS
FOR REORGANIZING SOVIET ECONOMIC MANAGEMENT

Premier Kosygin, in a major speech to the Plenum of the Central Committee on 27 September, proposed a shakeup in industrial administration and more autonomy for enterprise managers but offered no revolutionary plan for modernizing the Soviet economy. His proposals (1) will abolish Khrushchev's regional economic councils and restore the system of industrial ministries first introduced by Stalin in 1932, and (2) will increase the use in industrial enterprises of the so-called economic "levers": profit, bonuses, and a new lever -- interest charges on the invested capital of enterprises. One of the most dramatic changes proposed for the management of individual enterprises is the substitution of the volume of sales for the traditional and notorious gross value of production as a key indicator of the success of an enterprise.

Kosygin's new program falls far short of proposals made by the more radical Soviet economists; some want a drastic reform of central planning through mathematical methods, whereas others want a decentralization of economic management through the use of market prices and profits. One of the serious deficiencies in the proposals is the postponement of price reform to 1967-68. The speech was short on the details and the timing of the changes, and therefore the probable impact of the new program on Soviet economic performance is difficult to judge. In particular, establishment of new ministries seems to be much more immediate than introduction of the new rules for enterprises. Kosygin's objectives are to spur new technology and to increase the return on investment while retaining strong central control over industry. The proposals go far enough to cause confusion and a great deal of reshuffling of personnel, but not far enough to improve economic performance. The chief consequence may be to increase pressure for further reform or, conversely, for a return to the old system.

1. Changes in the Administrative Structure*

The principal changes proposed in the administrative structure of industry are (a) the establishment of 27 industrial ministries with responsibility for management of enterprises and development of their respective branches, and (b) the dissolution of the present system of regional economic councils. The new ministries replace 23 state committees and will be responsible for the following: planning, plan

* For the new structure of central administration, see the chart.

implementation, material-technical supply of subordinate enterprises, financing, determination of technical policy, and management of research and development within their respective branches.

Other changes in economic administration include (a) the dissolution of the Supreme Council of National Economy and the apparent transfer of its functions to the USSR Council of Ministers, (b) the dissolution of the USSR Sovnarkhoz and the transfer of its responsibility for plan implementation to the industrial ministries, and (c) the establishment of a new State Committee for Material and Technical Supply to handle the allocation of producer goods among industrial ministries.

Kosygin also referred briefly to two additional changes that would be made later. First, the use of direct contracting between individual enterprises and their customers and suppliers will be increased, and allocations through the material-technical supply system will be replaced by freer trading arrangements. Second, many individual enterprises are to be managed eventually by a network of branch associations or firms subordinate to the industrial ministries.

2. Changes in the Management of Enterprises

Kosygin's proposals for improving the management of industrial enterprises draw on the results of recent experiments in light industry, although how far these reforms will extend throughout industry is not clear. The proposals call for a sharp reduction in the number of central assignments and the increased use of "economic levers."

Under the new system, each enterprise will be given assignments from the planning authorities concerning (a) the volume of sales, (b) the main products to be produced, (c) the wage fund, (d) profit, (e) profitability (profit as a percent of fixed and working capital), (f) the portion of profit transferred to the state budget, and (g) the amount of investment funds allocated from the state budget. The first assignment -- the volume of sales -- is to be substituted for the traditional and notorious gross value of production index. If this is carried through for all industry, it will be the first time that the official and widely publicized index of industrial growth is not also the performance target for producing enterprises. In addition, central controls will be retained over investment in enterprises, the introduction of new technology, prices of products, and wage rates. Enterprises will be freed from a large number of other detailed assignments -- numbering 30 to 40 in some enterprises -- such as number of workers,

average wage paid, labor productivity, and production costs. In addition, enterprises are given greater freedom over the selection of inputs.

A striking innovation is the adoption of a form of capital charge. Enterprises will pay for the investment funds and working capital they receive from the budget by a charge against their profits, and any waste of capital will thereby reduce retained profits from which bonuses are paid. The new method, described as a "long-term credit system," will be applied first in going concerns and apparently will be extended later to newly constructed plants. In addition to receipt of long-term credits for investment, each enterprise also will set up an internal fund for investment composed of (a) a proportion of its profits, and (b) a proportion of its depreciation allowances that in the past have been turned over in full to the central budget.

Kosygin's recommendation means that direct contracting among enterprises will be increased, but he proposed no schedule for implementation. He also called for tighter discipline in inter-firm relations, such as more timely squaring of accounts and wider penalties for failure to fulfill agreements.

To improve the incentives for workers at all levels, Kosygin wants to replace the practice of paying bonuses from wage funds with payment of larger and more varied bonuses from enterprise profits. Funds also will be set up from enterprise profits for social and cultural purposes and for worker housing.

3. Evaluation

Kosygin's speech does not exude enthusiasm for administrative reshuffling -- perhaps because the successive rounds of reorganization in industry and agriculture, through which Khrushchev whirled like a dervish, produced no visible improvements in performance. The most obvious conclusion to be drawn from Khrushchev's many experiments is that it does not make much difference whether industries are organized by ministry or by region, whether planning is done at the republic or national level, or to what degree the Party is instructed to oversee and second-guess economic managers. The pervasive problems of coordination persisted through all the reorganizations, and the efficiency of investment continued to decline. Most Western observers, and a few Soviet economists, have concluded that the system of central planning itself is at fault and should be drastically reformed. But Kosygin has introduced nothing new. There is little chance that his cautious proposals

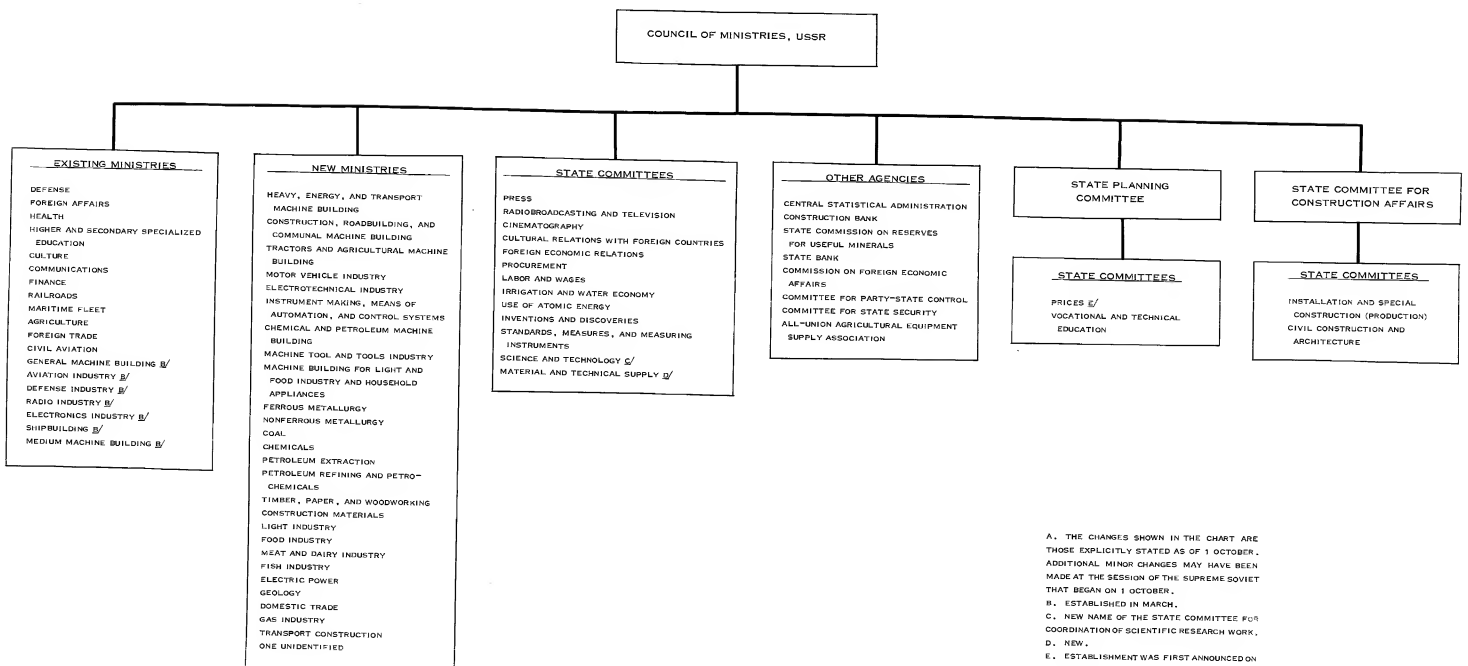
will produce fundamental gains in economic performance. The postponement of price reforms by at least another year would seem to nullify much of the benefit to be gained by giving enterprise managers more freedom of decision-making. It is difficult to see how rational decisions can be made with irrational prices.

Kosygin can hope for only a few marginal improvements from his administrative reorganization. There may be closer coordination of research and development among industrial enterprises that now will be subordinate to a functional ministry. Some of the nagging problems of supplying industrial enterprises under the sovnarkhoz system may now be reduced. However, some of the old problems that the 1957 reorganization sought to overcome may now reappear, such as the difficulties of coordinating different branches of industry in a given region. The speech was short on the details and timing of the changes, and therefore the probable impact of the new program on Soviet economic performance is difficult to judge. Kosygin's objectives are to spur new technology and to increase the return on investment while retaining strong central control over industry. The proposals go far enough to cause confusion and a great deal of reshuffling of personnel, but not far enough to improve economic performance. The chief consequence may be to increase pressure for further reform or, conversely, for a return to the old system.

The proposals for industrial enterprises appear to be an extension of the experiments now being conducted among some 400 enterprises in the USSR, but they lag behind the proposals that have recently been introduced in the Eastern European Communist countries. Not enough details of the proposed changes have been given to permit a full assessment of their impact on enterprise efficiency. It seems clear, however, that the Soviet manager still has relatively little freedom of choice. Furthermore, the changes in enterprise rules apparently are not to be introduced as rapidly as the new ministries.

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NEW CENTRAL ADMINISTRATIVE STRUCTURE OF THE USSR AS OF 27 SEPTEMBER 1965 A/



A. THE CHANGES SHOWN IN THE CHART ARE THOSE EXPLICITLY STATED AS OF 1 OCTOBER. ADDITIONAL MINOR CHANGES MAY HAVE BEEN MADE AT THE SESSION OF THE SUPREME SOVIET THAT BEGAN ON 1 OCTOBER.
 B. ESTABLISHED IN MARCH.
 C. NEW NAME OF THE STATE COMMITTEE FOR COORDINATION OF SCIENTIFIC RESEARCH WORK.
 D. NEW.
 E. ESTABLISHMENT WAS FIRST ANNOUNCED ON 28 AUGUST.

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Analyst:



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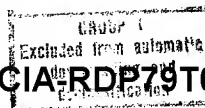
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